

MEXICO AND THE FUTURE

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FOREWORD

The recent traumatic developments in Mexico caught both the Mexican and U.S. governments, as well as most academic observers, by surprise. Until the Zapatista National Liberation Army burst onto the scene in January 1994, Mexico's future seemed assured. The North American Free Trade Agreement (NAFTA) had just been ratified by the U.S. Congress, and there was a widespread expectation that Mexico would take off economically and would, within the reasonably near future, join the ranks of the developed countries. And while the outlook for democracy seemed more problematic, few questioned the essential stability of the political system. Since then, much has changed. What happened and why are explored by Donald Schulz in an earlier SSI study, *Mexico in Crisis*.

In the current report, Dr. Schulz goes beyond that preliminary assessment to look at the prospects for democratization, socioeconomic development, political stability, U.S.-Mexican relations, and the national security implications for both countries. His findings are unsettling, and so are some of his policy recommendations, for they cut at the heart of many of the assumptions U.S. and Mexican leaders have made about the effects of current policies and where Mexico and the U.S.-Mexican relationship are headed.

One anticipates that this report will provoke considerable thought and controversy. The Strategic Studies Institute is pleased to publish it as a contribution to understanding events in this important country.

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BIOGRAPHICAL SKETCH OF THE AUTHOR

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SUMMARY

This study examines Mexico's prospects for democracy, socioeconomic development, political stability, relations with the United States, and the implications for the national security of both countries. The main findings are as follows:

On Democratization.

- While considerable progress has been made, the process remains incomplete and the gains are by no means irreversible. Democratization poses serious risks and costs for both the governing party (*Partido Revolucionario Institucional*, or PRI) and President Zedillo. It will likely lead to the further erosion of the PRI's political dominance and could weaken the current administration's ability to govern. There is also a possibility that the regime could lose control and that Mexico could descend into political immobilism or chaos. For these reasons, there may be a temptation to limit, halt, or even reverse the reforms.
- If the economy continues to decline, social discontent will grow, making governability even more problematic. If this occurs in conjunction with an upsurge in political violence, the prospects for an authoritarian restoration will significantly increase.
- The most likely outlook is for a long, drawn-out process of democratization that will take years—and probably decades—to complete. This process is unlikely to be unilinear. There will be setbacks as well as successes. While there will hopefully be more of the latter than the former, one cannot dismiss the possibility of an authoritarian restoration.

On Economic Recovery.

- The prospects are mixed. While currently most of the macroeconomic indicators are favorable, at the micro level the situation is grim and will probably get worse in the second half of this year. Economic recovery remains fragile and highly dependent on forces beyond Mexican control. Similarly, political/social stability is tenuous. If the conflict in Chiapas resumes and spreads to other states, if there are more political assassinations, scandals, and other forms of turmoil, then the crucial psychological preconditions for recovery may not be established. Investors tend to avoid risky, unstable environments.
- Both the economic crisis and government policies meant to deal with it are severely aggravating the country's social crisis, making it unlikely that social turmoil will diminish. This in turn will make it more difficult to generate economic recovery.

- A major challenge will be to attract enough long-term, fixed investments (plants and equipment) to offset losses of the short-term, highly liquid portfolio investments that played such a large role in bringing on the crisis. While portfolio investments will be needed also, Mexico must avoid becoming overly dependent on them.

- While the Mexican Government is forecasting a rapid recovery, it seems more likely that the economy will sputter along in a recession/meager growth pattern for another year or two. At the micro level, moreover, the recovery will be much slower than at the macro level. Equally possible, however, is the prospect that social and political instability and external forces beyond Mexican control will continue to undermine a recovery. If this occurs, then the most likely outcome is a lengthy period of recession/stagnation or, in the worst case, a resumption of a descending economic spiral. If U.S./international support for Mexico should falter, the latter would become the most probable scenario.

On Social Development.

- The beneficiaries of Mexico's structural adjustment have been mainly the upper class, especially the super rich.

- The combination of the Mexican Government's neoliberal economic policies and a decade-and-a-half- long economic crisis has had a particularly severe impact in the countryside, increasing poverty and encouraging rural-to-urban migration, as well as emigration to the United States.

On Political Stability.

- Political and social turmoil will continue. Labor unrest, rural violence, and terrorism are likely to get worse. Middle-class protest movements will grow. Elections will increasingly be disputed. Already the threat of narcotrafficking may be entering a new stage, with the cartels targeting political leaders for assassination. An emerging alliance between the narcos and reactionary elements in the PRI will probably lead to more violence if President Zedillo continues to accelerate the reform process. So serious are these prospects that one can no longer dismiss the possibility of a wholesale breakdown of the political system.

- The United States, both through its actions and inactions, could further destabilize the situation. A denial of more loans and guarantees, should they be needed, would plunge Mexico into an even deeper socio- economic crisis and might shake the political system to its foundations. At the same time, a successful U.S. immigration-reduction program might bottle up socioeconomic pressures at precisely the moment when those tensions are dangerously on the rise.

- Notwithstanding these dangers, the odds are against a massive political/social explosion. The foundation of the Mexican system, though seriously eroded, is still largely intact. The regime retains a considerable capacity to co-opt, contain or repress its enemies and potential enemies. The military is still loyal; the corporate controls, while weakened, are still formidable. At the same time, the legal opposition remains badly divided, and those revolutionary movements that exist (with the partial exception of the Zapatistas) are small and lack the resources and leadership necessary to make them a major threat.

On U.S.-Mexican Relations.

- The United States has few foreign policy concerns more consequential for its national interests than the welfare and stability of Mexico. Because the two countries' economies and citizens have become so intertwined, Mexico's problems are increasingly becoming U.S. problems.
- U.S. and Mexican leaders oversold NAFTA. While many of the agreement's anticipated benefits may still accrue, others will not. In some cases, social problems will grow worse *because* of NAFTA and the larger economic strategy associated with it.
- The United States and Mexico have entered into a new era of much closer, more intense relations. But closeness does not necessarily mean harmony. In a complex relationship, marked by serious conflicts of national interest and a long history of suspicion and resentment, intensity could as easily lead to greater hostility as amity. The potential for a serious backlash exists on both sides. The issue of illegal immigration has already started such a process. The question is whether it will gain momentum from other resentments.

On U.S. and Mexican National Security: Conclusions and Recommendations.

- There is a need for an expanded, largely nonmilitary conception of U.S. national security as it relates to Mexico; moreover, there is a growing link between U.S. and Mexican security. Mexico's socioeconomic and political crises impact on the United States both directly and indirectly, affecting U.S. trade and investment flows as well as the movement of narcotics and illegal immigrants. In turn, this affects socioeconomic conditions in the United States, especially near the Mexican border and in inner cities. In addition, the rise of a narco-state or the installation of a hostile government in Mexico City would greatly complicate U.S. security and defense policies.
- One of the sources of the Mexican crisis has been the government's neoliberal economic policies. While neoliberalism provides important insights and prescriptions that must be part of the solutions to the economic challenges facing Mexico, it is not a panacea. The strategy has too often been uncritically embraced, without sufficient understanding of its destructive and potentially destabilizing side effects. One

consequence has been the undermining of Mexican national security.

- The challenge is to devise a strategy that is capable of combining economic *and* social development, so that the wealth created benefits the entire society rather than a relatively small sector. With this in mind, it is time to reopen the debate on agrarian reform and agricultural protectionism/subsidies and to channel more assistance to small and medium peasants to enable them to raise productivity and make the transition to a modern, more diversified economy without unacceptably high and potentially destabilizing levels of social pain.
- More international aid will be needed to achieve these aims and to provide a social safety net to help Mexico through the crisis. At the same time, it will be necessary to create better mechanisms of accountability. Funds must be monitored; more (and more reliable) information must be supplied by the Mexican Government.
- Democratization must continue. Public expectations have been raised, and to frustrate them now would be potentially explosive. To minimize the risk, a concerted effort should be made to bring the political opposition in from the cold. This means not only fair elections, but a considerable broadening of the governing coalition.
- Mexico's corrupt judicial and police establishments must be cleansed.
- A new special prosecutor should be appointed to get the investigations of the Posadas, Colosio and Ruiz Massieu assassinations back on track.
- The war against narcotrafficking should be escalated. Though the risks are considerable, the dangers of doing nothing are even greater. Already the cartels have become a major threat to Mexico's national security and the whole process of reform. Accordingly, U.S.-Mexican cooperation should be increased. At the same time, the United States must step up efforts to reduce its domestic demand for drugs.
- Enhanced enforcement of U.S. immigration laws must be accompanied by increased sensitivity to the human rights of illegal aliens in order to avoid a proliferation of abuses.
- The U.S. Army should be wary of proposals to "militarize" the border area or otherwise prominently involve it in operations that might be perceived as being aimed at the Mexican people or as threatening Mexican sovereignty.
- U.S.-Mexican security cooperation might be enhanced by holding trilateral "North American summits" with Canada. The three armies could also engage in various "confidence building" measures, such as unit visits, personnel exchanges and noncontroversial exercises.

MEXICO AND THE FUTURE

Whither Mexico? During the 1993 NAFTA debate, supporters of the free trade agreement painted a portrait of a country rapidly vaulting into the 21st century, modernizing economically, democratizing politically, creating a more prosperous and equitable society for its citizens while curtailing northward migration, maintaining political stability, and entering a new era of harmonious cooperation with the United States. Then came 1994, and suddenly Mexico seemed on the verge of wholesale disintegration: an Indian uprising in Chiapas was quickly followed by the assassination of the *Partido Revolucionario Institucional* (PRI) presidential candidate, Luis Donaldo Colosio, by sensational kidnappings, stock market volatility and a rollercoaster election campaign, the assassination of PRI Secretary General José Francisco Ruiz Massieu, continuing political turbulence in Chiapas, Tabasco, Jalisco and other states and, at year's end, by the collapse of the peso. When the day after devaluation Popocatépetl, the long-dormant volcano southeast of Mexico City, began to spew huge clouds of steam and ash, forcing the evacuation of over 70,000 people, it seemed somehow symbolic—a fitting end to a Year of Living Dangerously.

What happened? How could a country with such seemingly bright prospects go so wrong?¹ And where is it going from here? At this writing, the crisis shows few signs of abating. Rather, it has dragged on, assuming new forms and presenting new problems and uncertainties. This monograph will examine some of these challenges and enigmas. Specifically, it will deal with the prospects for democratization, socioeconomic development, political stability, U.S.-Mexican relations, and the implications of all this for national security.

This last subject, in particular, is one that both countries have always had trouble coming to terms with. Mexicans rarely used the phrase “national security” prior to the 1980s, and even today it is often employed only in the vaguest of ways. Due to unhappy historical experiences with the United States,² Mexicans have traditionally focused largely on the need to protect their national sovereignty, internal security, and economic independence from U.S. encroachments. And while this has changed considerably in recent years,³ Mexican insecurity vis-a-vis the northern neighbor is deeply ingrained. In turn, partly because the subject is so sensitive (and so potentially disruptive to bilateral relations) and partly because decades of Mexican political stability led to a certain U.S. complacence about that country, the tendency in U.S. Government circles has been to push U.S.-Mexican national security concerns as far away as possible and deal with abstractions.

Today, however, that is no longer possible. Serious new dangers have arisen which will require both countries to redefine their national security interests along nontraditional lines. For Mexico, the threat is no longer aggression from the United States, but internal political, economic, and social disintegration. For the United States, in

turn, security must be defined not in terms of any conventional military threat (which does not exist), but by the dangers that the Mexican crisis poses for U.S. society. This mutual redefinition will require closer U.S.-Mexican cooperation than ever before. Lacking that, threats to the national security of both countries are likely to grow worse in the years ahead.

The Dialectic of Democratization.

What are the prospects for democracy? The first point to be made is that, while the August 1994 general elections were an important step forward on the road to democracy, the process remains incomplete and the gains are by no means irreversible. That President (then candidate) Zedillo committed himself to relatively fair elections in one instance does not necessarily mean that he will do so in the future. Neither is it clear how far he will be willing to push other democratic reforms, especially those that might undermine his own authority and power. The circumstances of the 1994 campaign, after all, were unique. The confluence of a variety of pressures, both domestic and foreign, made it difficult for then-President Salinas and Zedillo to resist democratization in the short run. But whether the latter will continue to push the issue once those pressures ease and/or new ones arise is anybody's guess.⁴

Moreover, within the PRI the "dinosaurs" still have a strong foothold, and they will try to protect their power and spoils by obstructing reforms by all means possible, both fair and foul. During the campaign, Zedillo was forced to embrace them for the sake of party unity and victory. The question now is whether—or to what extent—he will be willing and able to free himself from their grasp so that reform can be continued, or even accelerated.

Make no mistake about it, democratization poses serious risks and costs for both the PRI and the president. It will likely lead to the further erosion of the party's political dominance and all the benefits that go with it. At some point, the PRI might become just another party, one of several contending for public office. This is a prospect that even PRI technocrats cannot be comfortable with, since their power and perquisites are also at stake. Technopoliticians, after all, are still politicians. In the short run, at least, they will continue to depend on the "dinosaurs" for their own survival. Even after the Old Guard has lost its political usefulness—and this is gradually occurring, as privatization and other reforms undercut its patronage power and control over traditional constituencies like organized labor—the "technopolis" can be expected to try to limit democratization by preventing the emergence of a truly level playing field.

By the same token, democratization holds very real dangers for Zedillo. If he pursues it too vigorously, he risks the same fate as Colosio and Ruiz Massieu. Even if he avoids that ultimate sanction, a too rapid erosion of *presidencialismo* (the system which

has endowed Mexican presidents with dictatorial powers for their 6-year terms in office) would weaken his ability to govern, including his capacity to promote further democratization should he choose that course. Indeed, there is already strong evidence of such erosion. Zedillo has been in office for only a few months, yet already he has acquired a reputation as the weakest Mexican president in memory. (Witness his hesitant handling of the peso crisis and Chiapas, and the resistance of business and labor to his requests for wage and price restraints.)

Here, both an irony and a paradox: Under Salinas, democratization largely depended on the president's willingness to use his autocratic powers on its behalf. Strong presidential leadership is still necessary to constrain electoral and human rights abuses and corruption and guide the country further down the path of democracy. Thus "an abrupt, premature dismantling" of the presidentialist system might actually "doom future democratization efforts."⁵ On the other hand, if this is the case then Mexican democracy will remain precariously dependent on the goodwill and determined commitment of Zedillo and his successors. Given the historical record of Mexican presidents, this is not a particularly reassuring thought.

Then, there is the fear of losing control and descending into violence. There is a danger that democratization could unstick the glue that has held Mexico together for the past six- and-a-half decades. The end of the single-party hegemonic system could lead to an authority vacuum, political immobilism, and perhaps chaos. The decline of the PRI would almost certainly be accompanied by an erosion of party discipline. If the bitterness between the governing party and the opposition should greatly increase with the growth of real competition, multipartisan cooperation might become impossible. In that case, it is entirely possible that no single party or coalition would be able to govern effectively. The resulting deadlock, combined with the increasing demands accompanying rapid democratization and growing resistance to reform both within and without the PRI (from narcotraffickers, for instance), could lead to the wholesale breakdown of the system.

None of this is to suggest that such a scenario is probable, but it is certainly a possibility. Thus, the temptation to limit, halt or reverse the reform process. There is a great deal of ambivalence about democracy in the Mexican political culture. There is an attraction based on an idealized notion of democracy and the benefits often associated with it, but there is also a deep fear of the unknown and the destruction of a political arrangement that has maintained order and security for a very long time. Personal security is not something that people risk easily. If the violence wracking Mexico should continue to grow, the ability of democracy to provide order and security may be called into question. At some point, President Zedillo or his successor may feel it necessary to make peace with the "dinosaurs" and the mafiosos for the sake of national stability. That might well lead to an authoritarian restoration, with the president trying to rule as a *caudillo* (strong man) while federal, state and local authorities increasingly rely on repression to maintain order.

Another important variable in this scenario, of course, is economic. If the economy should continue to decline, social discontent would grow, making governability even more problematic. If this occurred in conjunction with an upsurge in political violence, the prospects for an authoritarian restoration would significantly increase.

One of the most important social bases of Mexican democracy has been the middle class. Yet, under current conditions of economic crisis, that sector is being pulverized. Will middle class Mexicans continue to support democracy when they are no longer middle class? The danger of a prolonged, agonizing socioeconomic crisis is that it can destroy the legitimacy of the democratic model by exposing its inability to solve the country's social and economic problems. And the bottom line for most Mexicans—as for most human beings—is economic. Democracy may be desirable, but food, clothing and shelter are essential.

All this makes probable a continuation of the present trend towards greater social and political violence. Labor unrest, guerrilla activity, and terrorism are likely to get worse. Middle-class protest movements, composed of small and medium businessmen, credit card debtors and other desperate members of the bourgeoisie, will become more widespread and angry. At the same time, there are signs that the threat from narcotraffickers is entering a new stage: the danger is no longer confined to the economic penetration of political and bureaucratic structures (i.e., bribery). As in Colombia, the cartels seem to be increasingly waging violence against the state itself. That may well be part of the larger meaning of the Colosio, Posadas, and Ruiz Massieu assassinations.⁶

Finally, there is the role of the United States. Contrary to the assumptions of many North Americans, the historical record does not lend much support for the assumption that the U.S. Government will take a strong and concerted stand on behalf of democracy and human rights in Mexico. In the past, Washington has almost always valued stability over democracy. Neither the Bush nor the Clinton administration included political issues in the NAFTA negotiations. Only in the aftermath of the Zapatista uprising and the Colosio assassination, when the country's political stability seemed in jeopardy and a fraudulent balloting in the August 1994 elections would have posed major problems for U.S.-Mexican relations (including NAFTA), did the Clinton administration really press Salinas on the issue of democracy. Once Washington's political needs have been satisfied and Mexico disappears from the front page of *The New York Times*, one suspects there will be a return to business as usual.

In short, the future of Mexican democracy remains problematic. Though progress has been made, the country still has a long way to go. On the positive side, President Zedillo has moved quickly to accelerate the reform process. The entire Supreme Court has been replaced; the judiciary and federal police have been restructured. Efforts are being made to bring the democratic left into the political process. Moreover, pressures for

reform have acquired a momentum of their own and will not soon disappear. This is not simply a matter of the Mexican president occasionally pressing for democratization. The political culture is in flux. Economic modernization has spilled over into the social and political realms. New forces have been unleashed which are eroding the dominance of traditional structures and interests. There has been an enormous growth of civil society, including a proliferation of Mexican and international NGOs (nongovernmental organizations) that have pushed for political reform and monitored its progress. These elements have become important transmitters of information to the outside world.⁷ As long as NAFTA remains a priority, the Mexican Government cannot afford to ignore its international image.

While it is possible that this concern with foreign—especially U.S.—opinion may fade once the current economic crisis abates, the opening of the Mexican economy and society to U.S. and Canadian influences and foreign NGOs will probably continue the subtle nurturing of democratic values. (On the other hand, this is not a sure thing. If U.S.-Mexican relations deteriorate, the opposite could happen.) Considerable progress has already been made in developing real opposition parties and a competitive party system. With a less erratic but still attractive candidate (Vicente Fox or Antonio Lozano, perhaps), the *Partido Acción Nacional* (PAN) would probably be an even more formidable foe in 2000 than it was in 1994, when it placed second with over a quarter of the vote. Even the leftist *Partido de la Revolución Democrática* (PRD), if it could find a dynamic new leader and improve its internal unity, could stage a comeback. The economic crisis unleashed by the December 1994 devaluation of the peso has already produced a strong political backlash. There are signs that 1995 may be a bellwether year. A series of state elections are scheduled in which the PRI is likely to be challenged as never before. While it is too early to tell, it may well be that we are witnessing the birth of a genuinely competitive multiparty system.

In sum, the outlook is mixed. The political milieu continues to be swept by strong crosscurrents. This can be detected even in the behavior of President Zedillo. Thus, even as he was pledging during the 1994 election campaign to encourage democratization within the PRI by pushing for internal elections or representative conventions, he limited that promise to the period prior to his inauguration. After that, he said, he would become a “passive” member of the party and would not “interfere in any way” in the candidate-selection process.⁸ One has to wonder how meaningful promises of reform are if the president is not willing to aggressively follow up on them.

Similarly, while Zedillo sought to signal his support for political and judicial reform by appointing the PAN’s Antonio Lozano attorney general, he simultaneously bowed to the Old Guard by making Ignacio Pichardo Pegaza secretary of energy. This was the same Pichardo who had been accused (whether justly or not has not been determined)⁹ of impeding the investigation of the Ruiz Massieu assassination. The appointment raised questions as to how far the president was really willing to go in terms

of weeding out corruption and promoting political reform. In the wake of the peso's devaluation, moreover, the credibility of the "technopols" has been seriously damaged. Old Guard representation in the cabinet has been strengthened, casting further doubt as to the government's direction.¹⁰

A comparable ambivalence surrounds the January 1995 agreement between the Mexican Government and the four leading political parties providing for additional democratic reforms and the defusing of the crises in Tabasco and Chiapas through new elections. (Both states experienced fraud-tainted, disputed votes in 1994.) No sooner was the ink dry on this "historic" pact than the government changed direction, adopting a new hard line on Chiapas and sending the army into guerrilla territory. This in turn prompted the PRD to declare that the accord had been shattered. Subsequently, Zedillo backed away from the pledge of a new election in Tabasco and recognized a questionable PRI "victory" in another fraud-ridden balloting in the Yucatán.¹¹

In light of the ambivalence and fluidity associated with Mexican democratization, the best that can be said is that the Zedillo *sexenio* (6-year term) will witness a continuation of the ongoing struggle for the soul of the nation. In part, this will assume the form of a dialectical conflict between those forces that want to accelerate democratization and those that are bent on derailing it. Under these circumstances, the most likely outlook is for a long, drawn-out process that will take years—and probably decades—to complete. This process is unlikely to be linear. There will be setbacks as well as successes. Hopefully, there will be more of the latter than the former, but there are no guarantees. Nor can one discount the possibility of an authoritarian restoration.

The Pitfalls and Prospects of Economic Recovery.

To appreciate fully the tenuous nature of the democratic transition that is underway, one must take into account the closely-related challenges of socioeconomic development and political stability. In a country like Mexico, where there has been a serious erosion of regime legitimacy, economic performance assumes increasing political significance. In effect, a deal was struck with the public: economic and political modernization was presented as a strategy for accelerating economic growth in order to create new wealth that would raise the living standards of ordinary Mexicans. If the plan was successful, the legitimacy of both the government and the political system would be strengthened. Precisely because that legitimacy had become so dependent on performance, however, economic setbacks were potentially more destabilizing than ever. If the strategy was unsuccessful, it risked being discredited and so, by implication, did democracy.

What are the prospects for economic development? Only a short while ago, the future seemed assured. NAFTA appeared ready to usher in a new era of growth that would catapult Mexico into the ranks of the developed nations. (Or so it was argued by

some treaty enthusiasts.) Then, in December 1994, the bottom dropped out of the peso. Delirious optimism gave way to bottomless gloom. Yet, in perspective, the collapse should not have come as such a shock. The warning signs had been clear: Mexico was living far beyond its means, purchasing foreign goods and services much faster than its economy could create the wealth to pay for them. The peso was overvalued; credit was available to almost everyone. The country was running a huge current account deficit, which could be financed only through massive foreign and Mexican private investment. Obviously, investor confidence was critical. But, rather than devalue earlier, when it might have been possible to make a soft landing, for political reasons Salinas chose to pretend the problem did not exist. Even after the August elections, he refused to make the hard decision that was necessary. Instead, he gambled that investors would continue to pour money into Mexico, even in the face of continuing political turmoil.¹²

The fallacy of that assumption is now painfully evident. For months, Mexico had been hemorrhaging hard currency. Between December 1993 and December 1994, foreign reserves fell from \$28 billion to \$7 billion. Throughout the year, moreover, nervous investors had been shifting money from peso-denominated notes to lower-interest dollar-denominated securities (*tesobonos*) that allowed them to withdraw their funds from the country more easily. Some \$29 billion of these bills were due in the months ahead. At the same time, the Central Bank was frantically using its increasingly scarce dollars to buy pesos in order to prop up the latter. When Salinas revealed the state of Mexico's declining reserves in his State of the Nation address in early November, it only worsened the problem. Matters were further complicated when the incoming president, Zedillo, shook up the Finance Ministry's management team, heightening the fears of Mexican financial managers who already viewed him as a weak and untested leader. Meanwhile, the Zapatistas were resurrecting the specter of war, spurring billions more dollars to flee the country. On December 19, the rebels announced (falsely) that they had slipped through the military's cordon and occupied 38 municipalities in Chiapas. Investors panicked, dumping Mexican stocks and bonds and prompting the government to spend even more of its rapidly evaporating reserves in a short-lived and futile effort to maintain the value of the peso.¹³

Later, Salinas would try to shift blame from himself to Zedillo by claiming that the latter's inept handling of the devaluation had turned a mere "problem" into a "crisis."¹⁴ There is some truth in this. Certainly, Zedillo's dithering made a bad situation worse. Not only did he fail to take the strong initial measures that might have reassured investors, but his disclosure to Mexican businessmen and bankers that the government lacked the reserves to protect the peso accelerated the stampede to convert pesos into dollars. Nor did the obvious inadequacy of Zedillo's initial Economic Emergency Plan and his slowness in putting together a subsequent plan help matters. These measures always seemed too little and too late to restore investor confidence.

This being said, it is a bit unfair to blame Zedillo for a crisis that exploded

virtually the day after he assumed office. He had been dealt a terrible hand; moreover, the shock when it came hit so fast and so unexpectedly that its full dimensions could not be immediately grasped. Under the circumstances, the determination not to “overreact” was understandable, though to be sure the government’s handling of the crisis was bungled in other respects.

The point is that there was plenty of blame to go around. Even the United States played a significant negative role, for at the very time that investors were growing wary of Mexico the Federal Reserve was providing them with an increasingly attractive alternative by repeatedly raising U.S. interest rates. Investors were not just fleeing Mexico; they were sending their money to the United States. This combined push-pull factor increasingly undermined the stability of the peso to the point where the mere *appearance* of political instability (which quickly turned out to be an illusion) could trigger an economic collapse. Nor did Washington respond to the crisis in the kind of rapid and decisive manner that might have restored investor confidence and enabled the Mexican Government to put together its economic recovery plan more promptly. The initial effort to guarantee Mexican loans was insufficient, and when it became clear that much more would be needed Congress got cold feet. Months after the crisis began, Congress was still considering legislation to cut off U.S. loan guarantees. If one wanted to instill insecurity in the hearts of investors and undermine Mexico’s economic recovery, that was certainly the way to do it.

But what are the prospects for a recovery? At best, they are mixed. At this writing, the situation seems to have stabilized, but whether the economy has hit bottom or is merely resting on a ledge, poised to resume its downward plunge at some point in the months or years ahead, cannot be confidently predicted. In purely macroeconomic terms, the problem appears manageable. The Mexican Government has instituted a regime of budget cuts, tax increases, price hikes and tight-money. An international commitment of some \$50 billion has been extended to help Mexico over the hump. Thanks to this aid, most of the *tesobono* debt has now been paid off. The peso has stabilized, and the stock market has recovered much of what it lost during its December-February plunge.¹⁵ Clearly, this crisis is different from the one in 1982, when Mexico found itself unable to continue payments on its foreign debt. Major structural changes have been made since then. Trade has been broadened, NAFTA has given Mexico enormous advantages over its Latin American neighbors in terms of access to North American trade and capital.

Thus, on the surface, the economy seems better prepared to weather the storm than was the case in the early 1980s. The current crisis, moreover, is one of liquidity rather than solvency. Already, the devaluation has reversed the country’s trade deficit with the United States. Mexicans are now selling more and buying less; their goods are more competitive. If they can establish a massive trade surplus, it will reduce their need to import foreign capital. (Through May, Mexico’s overall 1995 trade balance registered a surplus of \$1.929 billion, compared to a \$5.3 billion deficit during the same period in

1994.)¹⁶ At the same time, efforts are being made, through the imposition of high interest rates and other measures, to retain and lure back foreign investment, a task which should be aided by declining interest rates in the United States. If the economy can be stabilized and put on a sounder footing, the prospects for recovery would seem good—providing political turmoil can be avoided and there are no external shocks.

The catch is that it may not be possible to meet all these requirements. Though in narrow macroeconomic terms the current crisis may not seem to be of the same magnitude as in 1982, the domestic social and political ramifications are much greater, and these in turn feed the economic crisis and make it even more dangerous.¹⁷ One key variable is political/social stability. If the crisis in Chiapas continues or spreads to other states, if there are more political assassinations and scandals (not to mention kidnappings, drug trafficking, social violence, and electoral turmoil), then the crucial psychological preconditions for economic recovery may not be established. Investors tend to avoid politically unstable, risky environments.

Furthermore, both the current economic crisis and its solutions are severely aggravating the country's enormous social problems. Mexico is now in a deep recession. Over 2,000 businesses have closed and at least a million people (and probably many more) have lost their jobs since December. Zedillo's recovery program, with its emphasis on reduced spending, high interest rates, and more privatizations, will only make the pain worse. In effect, the government is attempting to "destroy prosperity in order to save it."¹⁸ Notwithstanding efforts to hold down price increases, inflation is expected to be between 40 and 50 percent in 1995. Real wages will continue to decline sharply, and labor unrest will grow, making it unlikely that social turmoil will diminish. It may, indeed, get worse, which may make it more difficult to attract and retain investment capital.

To this one must add such other factors as an emerging banking crisis; a wavering U.S. ally whose continuing financial support remains uncertain;¹⁹ cultural norms which value short-term gratification and consumption over savings and investment; future increases in U.S. interest rates; and a new era of volatile global markets, marked by the speed with which investors can withdraw their funds and the ease with which such moves can trigger a domino effect, inducing economic crises in countries far removed from those in which the process began.²⁰

Some of these pitfalls, to be sure, are debatable. The U.S. strategy, for instance, is based on the assumption that the Mexican crisis is the product of bad policies, rather than a new era of unstable markets, and that the economy can be turned around by making the right policy adjustments. This may be so, but there are enough unfavorable or uncertain variables in the equation that one cannot be very complacent about the future. High Mexican interest rates have not been enough to stem the exodus of portfolio capital. And while the outlook for long-term, fixed investments (plants and equipment) appears to be better, this will not soon offset what has been lost. The moment of truth will likely come

next year, when Mexico stops drawing on foreign assistance and will be face-to-face with the market once again.

Thus, the outlook is both mixed and uncertain. While the Mexican Government is predicting “vigorous economic growth” in 1996,²¹ its forecasts have been notoriously optimistic of late. More likely, the economy will sputter along for a while in a recession, with recovery occurring much slower at the micro than the macro level. Equally possible, however, is the prospect that Mexico will become caught in a bind: political and social instability will continue to undermine the recovery, while government policies designed to stabilize the economy will produce more political and social instability. If this is indeed the case, then the most likely outcome is a lengthy period of recession/low growth or, in the worst case, a resumption of a descending economic spiral. If U.S. interest rates should rise once more and international support for Mexico should falter, then the latter would become an increasingly probable scenario.

Socioeconomic Development in Mexico: A Contradiction in Terms?

Yet, the “current crisis” is only part of the problem. A potentially more serious danger lies in the implications of Mexico’s economic strategy for social development. Economists and politicians often overlook the fact that there is much more to socioeconomic development than economic growth: there are also the implications of that growth for the living standards and quality of life of the populace. It can no longer be assumed—as it once was—that the generation of economic wealth will automatically “trickle down” to the masses. It is entirely possible to have economic development and social decay occurring simultaneously—as, for instance, in the case of a growing economy that does not create enough jobs to absorb the expanding labor force. Or, equally to the point, an economic growth that produces *greater* socio-economic inequality. Wealth created in highly inequitable societies gets distributed very inequitably. The crucial question is: Who benefits?

In Mexico, the beneficiaries of structural adjustment have been mainly the upper class, especially the super rich. One statistic is particularly striking: In 1991, Mexico had just 2 billionaires; by late 1994, there were at least 28. (Only 3 countries had more.)²² While some members of the middle class also prospered, the farther one moved down the socioeconomic ladder, the fewer beneficiaries were to be found. The upshot was a significant increase in poverty and inequality.

The factors that produced these changes are well known to scholars. They include the reversal of the agrarian reform (the emasculation of Article 27 of the Constitution), the elimination or phasing out of tariffs, food price controls, and food and agricultural input subsidies, the opening of the economy to the large-scale importation of food and feed, and the privatization of credit, technical assistance and state corporations. The result has been growing unemployment, underemployment, landlessness and land poverty. Nor

is there any end in sight. Under NAFTA, thousands of uncompetitive Mexican businesses are being forced to close. Tariffs and import quotas on maize and beans will be phased out, along with corn subsidies. With the reform of Article 27 now permitting the sale of *ejido* lands,²³ it appears highly probable that inequality and land concentration will become much worse, as peasants, unable to compete with cheap foreign imports, come under growing pressure to sell out to large agro-export producers. While the number of peasants and agricultural workers affected cannot be confidently calculated, then-Undersecretary of Agriculture Luis Tellez revealed that the Salinas administration's intention was to encourage the emigration of over 13 million people from rural areas by the end of the century.²⁴

It may well be, of course, that the impact will be much less than originally anticipated and intended (it is certainly occurring much slower),²⁵ but even so there is likely to be major displacement. Those no longer able to make a living in the countryside will flock to the cities. Unless the economy grows extremely fast, and in a way that is labor-intensive rather than just capital-intensive, it will not produce nearly enough jobs to absorb this influx. The current oversupply of labor will grow, wages will be depressed,²⁶ the deterioration of urban living conditions will accelerate, and the poor will continue to migrate to the United States. Indeed, the flow will increase. How many will come, no one can say. A number of studies have estimated that the combination of NAFTA and other Mexican policy changes could bring in up to several hundred thousand additional immigrants annually in the short-to-medium run.²⁷ But that was before the current economic crisis triggered fears of a much larger influx.²⁸

In the longer run, the flow may well decline. Demographic factors (decreasing rates of population growth) suggest as much. Once the current crisis and the socioeconomic disruption caused by it and by Mexican policy decisions are past, the economy may pick up, creating more jobs and better wages. But this is problematic. Again, there are too many unknown or uncontrollable variables in the equation to be confident about the outcome.

The Syndrome of Volatility and Its Implications for Mexican Political Stability.

All this obviously carries implications for political stability. First, however, it must be placed within the larger context of the syndrome of volatility. As 1994 so dramatically illustrated, Mexico has become one of the most volatile countries in Latin America. Given its long record of political stability, this came as a shock to both Mexicans and foreign observers. Yet, the symptoms could be traced back at least as far as 1968 and the bloody suppression of the student movement. In the 1970s and early 1980s, they were manifested in the form of a guerrilla conflict in Guerrero and, much more potently, the boom-bust cycle of the economy, as oil-generated prosperity gave way to debt shock and recession. Less obvious, but also symptomatic, was the “curse” of Mexican presidents: beginning with Díaz Ordaz in the 1960s, every presidency has turned

sour in the last year or so of office. Salinas was simply following the established pattern. In recent years, we have seen wild swings between political crisis (1988) and political triumph (1991-93), followed by crisis (early 1994), triumph (August 1994) and now once again crisis (December 1994 to the present).

The symbolism of Popocatépetl could not be more apt. The volcano (Mexico) has been bubbling for some time; recently, the eruptions have been growing more frequent and in some cases more intense; the question is whether there will be a full-scale explosion or whether the cauldron will continue to engage in mid-scale eruptions before cooling back down to a simmer.

If political instability should worsen, what form would it take? Perhaps the least likely scenario would be a *golpe de estado* (coup d'etat). The Mexican Army is not your stereotypical Latin American military. There are no indications that it is interested in seizing power. On the contrary, it seems quite content with its established place within the existing political system (which it played a major role in creating) and would not want to be saddled with the responsibility of governing, especially under tumultuous circumstances.²⁹ In the unlikely event that the military does intervene, it will do so very reluctantly—as a last resort in response to an acceleration of the current crisis for the purpose of “saving the nation” from wholesale disintegration.

Unfortunately, the possibility of such a breakdown can no longer be dismissed. The Soviet example underscores the danger of pursuing major political and economic reforms simultaneously, especially when the country lacks a solid economic base. In Mexico, economic liberalization and political democratization have threatened powerful interests. The emerging alliance between narcotraffickers and reactionary elements in the PRI will almost certainly lead to more violence and assassinations if Zedillo continues to accelerate the reform process. Already, the president’s attempts to intervene in the state elections in Tabasco and Chiapas have produced a backlash within those local power structures, and it is by no means clear that the president has enough authority to impose his will *à la* Salinas. Rather, the impression one gets from Zedillo’s first months in office is that the system of *presidencialismo* may be history.

At the same time, the PRI is weaker than ever. The party’s victory in the August 1994 elections was largely due to the belief of millions of voters that it could maintain political and economic stability. That confidence has been dealt a devastating blow by the Ruiz Massieu assassination, the turmoil in Chiapas, Tabasco, and the Yucatán, and the devaluation of the peso. This last is especially damaging, since it has become public knowledge that Salinas knew that the crisis was brewing, yet did nothing to avert it. That failure—which is widely viewed as a betrayal of the public interest—has seriously undermined the legitimacy of the regime and the new administration and is likely to haunt the president and the PRI for years. In 1995, the ruling party faced major challenges in a flock of elections in states where the opposition had launched strong campaigns of civil

disobedience in recent years.³⁰ One anticipates that both the quantity and intensity of this kind of turbulence will increase during this *sexenio*. As a result, Zedillo may well face a no-win situation: if he tries to placate the PAN and the PRD by intervening in disputed elections, he will further alienate the “dinosaurs” in his own party. Yet, a failure to intervene will further antagonize the opposition. Either way, conflict—and probably violence—are more likely to grow than abate.

This will probably also be the case with regard to agrarian unrest. At this writing, the crisis in Chiapas remains unresolved. Though neither side wants a renewal of the fighting, the issues separating them will be difficult to settle. While Zedillo has promised a new election, it is not clear that state and local PRI authorities will accept such an intervention. (In neighboring Tabasco, where the president has also sought to intervene, they launched an open revolt.) Even if a new balloting is held, it may not result in an opposition victory. Would the Zapatistas and the PRD accept another PRI win? Or would they once again cry fraud, and renew their campaign to make the state ungovernable? Nor is the government any longer in a position to fulfill its promises of social development. The peso crisis will force it to cut back spending, limiting its ability to provide programs that might alleviate the discontent that produced the uprising in the first place.

Even if war can be avoided, the most likely prognosis is for continuing turmoil and violence. Chiapan politics is a zero-sum game. Since January 1994, peasants have seized over 50,000 hectares of privately owned cattleland and farmland. The previous owners/occupants want it back, and have threatened to resort to force unless the government acts. In many cases, they have already unleashed their *pistoleros* (gunmen). Thus, notwithstanding the recent reopening of peace talks, the local situation has become more polarized since the August elections. Land occupations have spread beyond those areas in which the Zapatista National Liberation Army (EZLN) has operated. Violence is growing. Now, moreover, there are at least two other small armed groups in Chiapas sympathetic to but not controlled by the Zapatistas.³¹

The greatest danger, of course, is that the contagion may spread. A renewal of the fighting in Chiapas would spark anti-government protests in many areas of Mexico, including those with large Indian populations. Some of these would probably be violent. There have already been media reports of guerrillas in other states. While some are no doubt false or inflated, they cannot all be dismissed. The most likely candidate for a serious guerrilla movement is probably Guerrero, which hosted an insurgency in the 1970s. Recently, wall slogans there have announced the presence of the Revolutionary Workers Clandestine People’s Union Party (PROCUP), an ultra-leftist group which claimed credit for bombings in Acapulco and Mexico City in January 1994. There is also a guerrilla organization calling itself the Armed Force for the Mexican Revolution, which claims a thousand well-armed followers (no doubt a vast exaggeration). Reportedly, there are also other groups operating in the state, some of which are thought to be receiving advice from the EZLN.³²

These movements are still in their nascent stages of development, but they have considerable potential for growth. Agrarian unrest is mounting and will continue to increase, in large part because of the government's own actions: the agricultural modernization program—including the revision of Article 27, the NAFTA, the elimination of quotas, tariffs, subsidies, credits, and so on—is creating the socioeconomic conditions for insurgency. The current economic crisis may be expected to add fuel to what are still (with the exception of Chiapas) scattered bonfires. The Zapatistas have provided inspiration for hundreds of thousands of peasants, some of whom have already begun to seize lands for themselves. Some of the new guerrilla groups are clearly trying to emulate the EZLN. Whether these fires will spread, how far and how fast, are impossible to say, but it would be foolish to ignore them.

Beyond this, the United States, both through its actions and inactions, could also fan the flames. Congressional and public resistance to President Clinton's loan guarantee program suggests a willingness in some circles to let Mexico go down the drain. Should those sentiments somehow become policy, turmoil will increase even further, perhaps to the point of explosion. At the same time, the temptation on the part of some congressmen to place humiliating conditions on U.S. assistance has already led to a backlash in Mexico. That country is in the midst of a painful period of austerity. Inevitably, there will be resentment on the part of those who will have to bear this burden. An excessive intervention in the internal affairs of Mexico could generate an intense nationalistic reaction that could severely damage U.S.-Mexican relations and undermine the Zedillo government, which could become identified with the "imperialist penetration" of Mexico, the violation of national sovereignty, and the "onerous" austerity measures required to stabilize the economy. The upshot could be more instability.

U.S. immigration policy could also worsen the problem. Economic crisis and neoliberal economic policies will mean hardship for labor and the middle class, as well as the peasantry. In the short run, at least, recession and rural-to- urban migration will mean higher unemployment. That in turn will create more pressure to emigrate. Mexico's northern border has long served as an escape valve to siphon off socioeconomic frustration. Indeed, this has been one of the keys to the country's political stability. Now, however, growing anti-immigrant sentiment in the United States has led to stepped-up efforts to stem the flow of illegal aliens. Operation "Hold the Line" in El Paso and "Gatekeeper" in the San Diego area initially led to a sharp decline in arrests at those key entry points. Inspired by these results, the Justice Department began talking about reducing the number of illegals crossing the border by 90 percent over the next several years. More recently, it has been developing a contingency plan to prevent any major exodus that might be in the offing.³³

There are serious doubts about the feasibility of such plans. A 2,000-mile border will be extremely difficult, and perhaps impossible, to patrol, and measures designed to

halt crossings at selected points may simply increase the flow at others. The effort may be likened to squeezing a balloon; push in at one end and it swells at the other. Already, Nogales seems to have become a new preferred crossing spot. But assuming that the objective can be attained, what would be its implications for Mexico? A successful illegal immigrant-reduction program would worsen socioeconomic conditions and bottle up frustrations at precisely the moment when such tensions are already dangerously on the rise. It would also be likely to strain relations with the United States (especially if the U.S. military were involved) and undermine the NAFTA and hence the prospects for Mexico's future prosperity. In a worst-case scenario, it could contribute to a social explosion.

This will probably not happen. Apart from the question of whether the United States has the capability of greatly reducing the flow of illegal immigrants, one should not underestimate those factors that have maintained stability in the past. The foundation of the Mexican system, though seriously eroded, is still largely intact. The regime retains a considerable capacity to co-opt, contain, or repress its enemies and potential enemies. The military is still loyal; the corporate controls and powers of patronage, while weakened, are still formidable. At the same time, the political opposition remains badly divided. One of the PRI's greatest strengths is the weakness of its enemies. Lacking a single, unified opposition party, the anti-PRI forces are divided between the right-wing PAN and the left-wing PRD, making it difficult for either to amass enough votes to defeat the PRI on the national level.

Nor do the prospects of the revolutionary opposition look all that good. For a revolutionary counter-elite to succeed would require leadership, organization, unity, financial resources, arms, and a mass following, all of which are either absent or in short supply at present. Subcomandante Marcos might perhaps have the charisma and intelligence to provide national leadership, if he can escape capture or assassination, but whether even he could unify the proliferation of small guerrilla groups that is emerging into a single, large organization is questionable. Without that, the revolutionary movement is more likely to resemble a scattering of small, isolated brushfires than a nationwide conflagration.

In any case, President Zedillo is aware of the danger and is trying to defuse the Chiapas crisis by offering new elections and other concessions. For their part, the Zapatistas are clearly reluctant to renew the fighting. They remain surrounded on three sides and very weak militarily. For them, a full-scale war would be disastrous. Both for this reason and because Zedillo wants to avoid a politically damaging bloodbath, there is still a good chance it can be avoided.

In short, the prospects are for a very troubled *sexenio*. Mexico is experiencing a classic syndrome of rising expectations (generated by Salinas and NAFTA) followed by sharp economic decline, which in turn has created enormous disillusionment and anger.

In effect, the social contract between the government and the people has been shattered. While this will probably not lead to a wholesale, violent revolution *à la* 1910-20, it does presage continuing lower-level violence and instability, along with an accelerated erosion of the PRI's political control. In effect, Salinas and Zedillo have partially dismantled the old political system without replacing the discarded parts with solid new structures. Until a more coherent system can be formed, the turmoil will not abate.

At the same time, Mexico finds itself trapped between the requisites of economic development and social development. How does one get the country's financial house in order without creating more Zapatistas? By the same token, if political instability and social unrest continue or increase, as seems probable, economic recovery will take longer and will be more painful and less bountiful than most U.S. and Mexican government analysts are predicting.

Keep in mind, too, that all this is occurring simultaneously with an extraordinary fracturing and restructuring of the Mexican ruling class. In this regard, the fall of the brothers Salinas and Ruiz Massieu is symbolic of a truly profound change: the old rules and shared interests that had traditionally kept the different factions and personalities in the elite from tearing each other apart have badly deteriorated. Malevolent new actors—the narcotraffickers—have penetrated the political system and are using their powers of violence to wage war on the state when they cannot subvert it through corruption. In this milieu, marked by an erosion of clear and widely-accepted rules of the game and an increasing flux of new and old actors and interests, it has become extremely difficult to tell the good guys from the bad. That is likely to be the source of much frustration and anguish for both Mexicans and *gringos* in the years ahead.

Nevertheless, barring the unexpected (a complete economic collapse, for instance) there will be no grand explosion. There is even a chance, if the economy picks up, that the PRI may rebound politically. It has done so before, and may do so again. One should never underestimate this extraordinarily resilient organization.

One final point in the form of a cautionary. President Zedillo's initial approach to governing seems to be based on the premise that the solution to the problem of political instability is more democracy. One hopes that this assumption is correct, but one must be coldly realistic: democracy does not always work, and in any case it is not a cure-all. In this instance, democratization might actually weaken Zedillo's ability to govern by subverting his authority and encouraging the opposition to undermine his policies and further spread civil unrest. Can a democratic president command the same respect as his authoritarian predecessors? Or will he be regarded as weak and less worthy of support? If the latter, the country could slide towards ungovernability. Under those circumstances, the response might well be to try to seize back the powers that have been lost. That could mean an attempt to restore *presidencialismo* or, in an extreme situation, the resort to a Fujimori-style *autogolpe* (self-coup) with the support of the military.

The United States, Mexico and the Future: The Uneasy Symbiosis.

The United States has few foreign policy concerns more profoundly consequential for its national interests than the welfare and stability of Mexico. Yet, U.S. political leaders and the public at large have only recently begun to realize that. Indeed, many still take their southern neighbors for granted. That is no longer possible, however. There is a geographic imperative in U.S.-Mexican relations that transcends preferences. Mexico has entered a “time of troubles,” and precisely because its economy and citizens have become so intertwined with our own, we cannot ignore it. Greater interdependence means that Mexico’s problems are increasingly becoming U.S. problems. From this, there is no escape.

Thus, the need to inject a dose of realism into U.S.-Mexican relations. U.S. political leaders have a tendency to oversell their policies, and Mexico is a glaring example. In effect, NAFTA was presented as a cure for most of Mexico’s ills and many of our own. It was to lift that country out of under- development and into the ranks of the advanced industrial nations, in the process assuring political stability, fostering democracy, protecting the environment, creating more jobs, raising living standards, solving the nettlesome (for the U.S.) problem of illegal immigration, and paving the way for a new era of U.S-Mexican cooperation and harmony. While some of these benefits may still accrue to one extent or another, others will not. In some cases, problems will grow worse *because* of NAFTA and the larger neoliberal economic strategy associated with it.

Nowhere is this ambivalence more apparent than in the evolving U.S-Mexican symbiosis. That the two countries have entered a new era of much closer, more intense relations is clear. But closeness does not necessarily mean harmony. In a complex relationship, marked by serious conflicts of national interest and a long history of suspicion and resentment, intensity could as easily lead to greater hostility as amity. At minimum, strains and conflicts will continue, and one must be prepared to deal with them. The danger of overselling your product is that you may become the victim of your own propaganda. With respect to Mexico, two U.S. administrations became so enamored with their vision of the future and the strategy, policies and individuals (specifically, Salinas) thought necessary to attain it that they were lulled into a false sense of optimism. These blinders made it difficult to anticipate and head off emerging problems, or face them once they finally appeared. When early signs that the Mexican economy was in trouble began to crop up, U.S. leaders engaged in denial rather than warn investors or take measures to avert the crisis.³⁴ Even as late as December 1994, at the Summit of the Americas, President Clinton was still waxing euphoric over Mexico’s accomplishments, holding them up as a model for other Latin American countries to emulate. When reality finally hit full force, the response was shock, confusion and indecision— precisely the wrong messages to send frightened investors.

Another danger, of course, is that false optimism can lead to disillusionment and isolationism. This in turn could seriously damage U.S.-Mexican relations and aggravate the very problems that it is so much in the U.S. interest to ameliorate. To its credit, the Clinton administration has resisted that impulse, though the heavy congressional resistance to its efforts to put together a loan guarantee program is one more indicator of the anti-Mexico backlash that has been growing in the United States in recent years.

These criticisms, of course, apply to Mexico as well. As early as summer 1994, U.S. Treasury officials warned the Mexicans that their short-term borrowing had reached a dangerously high level and that the peso was overvalued. The latter knew the economy was in trouble even before the elections. But rather than facing the country's emerging crisis courageously and taking the politically painful measures needed to contain it, the Salinas administration ignored the problem. For a long time, indeed, it hid its economic difficulties in a kind of shell game, keeping key statistics out of the public domain. Subsequently, Zedillo's handling of the situation ("5 weeks of bumbling," in the words of one observer)³⁵ only worsened the crisis of confidence among both foreign investors and Mexicans. And there are plenty of other examples. Among other things, the Mexican Government has still not come to terms with the social crisis that its economic policies have unleashed.

Thus, realism will be needed on both sides of the border. The most immediate challenge for U.S.-Mexican relations (aside from restabilizing the Mexican economy) will be to contain the backlash. It is not simply that U.S. investors have been burned; they feel, with good reason, that they have been manipulated and betrayed. Mexican leaders knew that a potential crisis was brewing, yet led them on, reassuring them as to the stability of the peso even on the eve of devaluation.³⁶ The bitterness and mistrust sown by that deception will not soon dissipate. At the same time, U.S. efforts to come to Mexico's rescue will fan the resentment of those who believe (in part correctly) that irresponsible Mexican leaders and Wall Street speculators are being bailed out at taxpayer's expense.

At the same time, U.S. rescue efforts will receive a mixed welcome from Mexicans. For many nationalists, the enormous package of loans and loan guarantees will seem to confirm their worst fears and suspicions of the "Colossus of the North." In the words of one: "I think you [the United States] should be very happy; you're now the proud owners of Mexico."³⁷ If perceptions of U.S. economic penetration should fuse with other emotion-laden perceptions—e.g., that the United States is interfering in Mexico's internal affairs and violating its sovereignty, that it is inflicting onerous economic pain on ordinary Mexicans so that U.S. investors might profit, and that this aid will not solve Mexico's problems but merely increase its indebtedness—then the nationalistic backlash could threaten the entire relationship.

The point is that, in highly interdependent systems like the United States and

Mexico, what happens on one side is likely to have an effect on the other. A backlash south of the border could easily fuel a backlash to the north, and vice versa. The issue of illegal immigration has already started such a process. The question is whether it will gain momentum from other resentments. (Among other things, there have been recent complaints about Mexico's lack of cooperation on environmental and law enforcement problems in the borderlands.)

On Mexican and U.S. National Securities: Conclusions and Recommendations.

What are the implications of all this for national security? Two points, above all, stand out: One concerns the need for an expanded (nontraditional) conception of U.S. national security; the other involves the growing linkage between Mexico's security and our own. It has been argued that very few countries are as important to U.S. interests as Mexico. Yet, clearly, Mexico does not pose a military threat to the United States. Rather, it presents a broad mix of political, economic and social concerns, some of which touch on security issues. If Mexico has an economic crisis, it impacts on the United States. U.S. investors lose money. U.S. companies are hurt and workers laid off because Mexicans can no longer afford to buy our products. While the direct impact of this is very modest, given the enormity of the U.S. economy in relation to Mexico's, the indirect effects are magnified in an era of fragile international markets where an economic collapse in one large developing country can trigger crises elsewhere. (Witness the impact of the Mexican peso crisis, for instance, on Argentina.) In an international system increasingly dominated by global commerce, U.S. prosperity is becoming much more dependent on our ability to sell our goods in foreign markets, especially in Latin America and other parts of what used to be called the Third World.³⁸

Beyond this, political and economic crises in Mexico aggravate socioeconomic problems in the United States, particularly along the U.S.-Mexican border and in inner cities where unemployment, homelessness, violent crime and drug addiction are already outstripping our ability to cope with them. In a very basic sense, these are national security issues. The prospect of hundreds of thousands more illegal immigrants annually, on top of the numbers that were arriving prior to NAFTA and the peso devaluation, placing even more strain on overburdened social services (education, medical care, crime control, etc.), fostering xenophobic resentment and the violence that often attends it, is not something that responsible political authorities can ignore.³⁹

Neither can U.S. leaders afford to turn a blind eye to the threat posed by the growing economic and political power of Mexican narcotraffickers, whose activities poison our social fabric, kill our citizens, and undermine our personal and collective security. During the past year, tons of cocaine have been flown into Mexico in old jets, to be sent north over the border into the United States. Clearly much of this has been done with the complicity of Mexican officials, including high-level ones.⁴⁰ While it is uncertain how far President Zedillo will go in combatting this scourge, a truly vigorous

and sustained response would likely lead to more violence in the short-to-medium run. There is some evidence that “Colombianization” of Mexico has already begun. Whether the level of conflict will reach that attained in that South American country cannot be predicted, but the thought should give U.S. authorities pause. In an era of growing interdependence, one cannot assume that an upsurge of drug-related violence or terrorism in Mexico would stop at the border.

By the same token, the further spread of political instability—whether in the form of assassinations, guerrilla movements, electoral violence, labor unrest, urban insurrection, terrorism or even, to take the extreme cases, *golpes de estado* and civil war—could not but have repercussions in the United States. The more political turmoil, the harder it will be to generate and sustain Mexican economic recovery. The longer and more intense the economic crisis, the poorer the outlook for U.S. investors, companies that trade with Mexico, and workers who depend on such commerce for jobs. The deeper and more prolonged the Mexican social crisis, the more emigration northward and the greater the social damage in the United States. Moreover, political violence in Mexico could well spill over the Río Grande.⁴¹

Should relations between the two countries turn sour, that would add another dimension to the problem. What would be the implications for U.S. security, for instance, if the narcotraffickers were able to so subvert the Mexican state that it became, in effect, their fiefdom? Or what if there were a major anti-gringo backlash? How much cooperation could we expect with regard to illegal immigration, drug trafficking, and terrorism from a hostile Mexican government? Might not such a regime even encourage such activities? A hostile government in Mexico City might endanger U.S. investments, access to oil, and perhaps even maritime routes in the Gulf of Mexico and Caribbean, and it could produce a flood of political refugees. Under such circumstances, the United States might feel it necessary to militarize its southern border, at great economic and political cost.⁴²

One should not overstate these dangers. Mexico’s ability to affect the United States is relatively limited, and some of the above scenarios are unlikely. Nevertheless, they cannot be dismissed. While these problems and potential problems currently pose only low-level threats to U.S. security, that could change. Things could get worse. The bottom line is that social decomposition can be contagious. When societies become as interrelated as the United States and Mexico have become, the pathologies in one can sometimes spread to the other.

What to do? Obviously, this is not a question that can be addressed to U.S. leaders alone. The Mexican crisis is, first and foremost, a Mexican problem. The United States can help, but only Mexicans can solve it. One of the roots of the crisis, which has often been ignored and sometimes denied in both Mexico City and Washington, has been the neoliberal policies begun by President Miguel de la Madrid and accelerated by

Presidents Salinas and Zedillo. The trouble is that an export-oriented growth strategy, though capable of producing great wealth, cannot in itself assure that this wealth will be fairly distributed. Without some government regulation, a free-market approach is likely to produce greater inequalities and inequities, which will themselves be potentially destabilizing, both socially and politically, and which in the end may well undermine the neoliberal strategy itself. That, in fact, is part of what has happened in Mexico, to the detriment of both U.S. and Mexican national security. The rebellion in Chiapas is only the most obvious manifestation.⁴³

In short, the time has come to go back to the drawing board. Neoliberalism provides important insights and prescriptions that must form part of the solutions to the economic challenges facing the United States and Mexico. But it is not in itself a panacea. The strategy has too often been uncritically embraced, with a fervor more appropriate to religious converts than social scientists or policymakers,⁴⁴ and without appreciation of its destructive side-effects. In the words of George Collier:

A broader accountability is . . . called for on behalf of those who have been disadvantaged by the growing differentiation in the Mexican countryside . . . ‘Modernizers’ need to reconsider whether our societies can afford the impoverization of the masses that accompanies economic restructuring . . . In the final analysis, can modern economies and modern states afford societies in which so many people are losing their economic power as purchasers and consumers?⁴⁵

The challenge, then, is to devise a strategy of democratic economic development (i.e., one capable of combining economic development with social development). This will not be easy, for policies that maximize economic competition, production, and efficiency often do so at the expense of social benefits, and vice versa. Nor will it be enough merely to provide a temporary “social safety net”—important as that is—for those who will bear disproportionate costs for “modernization.” Rather, a hybrid economic system must be fashioned that will be capable of simultaneously reducing unemployment/underemployment, generating sustained economic growth, and holding the line on inflation. Though the details of such an approach have yet to be worked out, part of the solution will probably have to include a reopening of the debate on agrarian reform. What is needed is *real* reform rather than—as has so often happened in the past—a bogus reform that leaves the best lands in the hands of the rich and powerful.

This will be controversial. The common wisdom has long been that the *ejido* is a deadweight on agricultural productivity. While this may be true, the lessons that have been drawn from it are misleading. Mexican agriculture is in crisis not because of any inevitable “backwardness” of the peasantry, but mainly because (1) so many of these properties suffer from infertile soil and insufficient water, and (2) small farmers generally lack credit, technical assistance, insurance, subsidies, irrigation, roads and other

marketing facilities. In short, most of the support services that are critical to the viability of small and medium-size farms have been missing or withheld. Yet, there is some evidence that, when they have the necessary capital resources, Mexican peasants can raise their productivity substantially.⁴⁶

The issue of agricultural prices and subsidies should also be revisited. Peasants need economic incentives if they are to produce. Perhaps, as one study has suggested, corn prices should be considered a national security issue, the way rice prices are in Japan.⁴⁷ While this would mean renegotiating certain parts of NAFTA, that may be part of what is required to maintain rural stability and limit migration, both to urban areas and northward to the United States.

Whether the *ejido* itself should be privatized and how are open questions. But the bottom line is that without the kinds of incentives and resources mentioned above, privatization will result in a serious worsening of both rural and urban social conditions as peasants, unable to make a living in the countryside, flock to the cities, aggravating the dismal living conditions that already exist in the slums.

Beyond this, however, it must be recognized that, no matter how successful agrarian reform and agricultural development policies might be, it will not be enough to overcome rural poverty. With only about 15 percent of its territory considered arable, Mexico is a land-poor country. Thus, another key element is diversification. Other resources (rural industries) will have to be developed. Since the countryside is unlikely to become “a favored place for foreign investment,”⁴⁸ it will be up to the government to play the leading role when private enterprise does not.

Along these same lines, there is a need for government assistance to help farmers diversify their livelihoods. As Collier has noted, the “time has passed for considering the ‘peasant question’ simply in terms of price guarantees for corn or redistribution of land for labor-intensive household-based production.” The requisites of survival have already forced millions of small farmers into wage work, as well as numerous activities that “combine surprisingly modern and flexible enterprise with collective or cooperative endeavor.”⁴⁹ Much more financial, technical and other aid will be needed if Mexican peasants are to make the transition to a modern, more diversified economy without unacceptably high and potentially destabilizing levels of social pain.⁵⁰

The question, of course, is how to pay for these policies. A social safety net is sorely needed, but it will cost money. Land redistribution would require compensation for present owners. And so on down the line. Under the current crisis conditions Mexican Government funds are limited. Clearly, international assistance—from foreign governments (especially, the United States), international lending institutions, and NGOs—will be needed.

But if more foreign aid will be required, it will be equally necessary to create better mechanisms of accountability so that this assistance is not wasted. Part of the reason that Mexico is in the sorry financial shape that it is may be attributed to the lax scrutiny of international lending and credit rating agencies. Similarly, the United States was far too timid about pressing Mexican leaders on sensitive issues—like economic management—that might have posed obstacles to NAFTA and the much-desired new era of economic cooperation. At minimum, there must be a more open accounting of Mexican financial dealings. In the words of one observer, “the availability of timely and reliable data should be a non-negotiable condition for continuous international support.”⁵¹

This principle is as relevant to the disbursement of international development aid as it is to other forms of assistance. Funds must be closely monitored to ensure that they are used for the purposes intended. In addition, more (and more reliable) information is needed on critical economic indicators. To be sure, some progress has already been made. Mexico’s Central Bank now reveals the level of reserves and the money supply on a weekly basis. On the fiscal side, however, there has been little improvement. Investors continue to be suspicious—with good reason—of the government’s statistics and projections. There remains a sharp contrast between the availability of reliable information in Mexico vis-a-vis other Latin American emerging markets.⁵² Such data is crucial if the country is to restore investor confidence and attract the capital it needs to achieve sustained economic growth. It would also help avoid unpleasant surprises as would occur, for instance, if the current loan guarantees prove inadequate. While it is too late for these disclosures to prevent the current crisis, they might help avert a future one.

Moreover, recent revelations by the International Monetary Fund about the role that Mexican investors played in sparking the December 1994 run on the peso underline the need for at least some capital controls. In order to reduce the risk of future such episodes, the Zedillo administration should institute measures to prevent capital flight by Mexican citizens.

Another complex of reforms is political. Clearly, democratization must continue. Whatever its risks, public expectations have been raised and to frustrate them now would be potentially explosive. To minimize the danger, a concerted effort should be made to bring the political opposition in from the cold. That means not only fair elections, internal party democratization, and electoral, media access, and campaign spending reforms, but a considerable broadening of the governing coalition. Put simply, the PRI has been discredited; it lacks the moral authority and competence to carry out the reforms that are needed. It is therefore up to honest Mexicans across the political spectrum to band together in a coalition for national salvation. As Wayne Cornelius has observed, such a

truly inclusive coalition-building effort would threaten the careers of many PRI government leaders and require considerable negotiating with

opposition groups. However, such an effort is much more likely to yield political stability and investor confidence over the long run than is the more exclusionary approach to political reform and governance that we have seen since 1988.⁵³

At the same time, there needs to be a cleansing of Mexico's corrupt judicial and police establishments. Without that, neither foreign investors nor ordinary Mexicans (who are the primary victims of these bastions of state-sanctioned injustice) can have much faith in official pledges of reform. While President Zedillo has made substantial progress in some areas—most notably, Supreme Court reform—the challenge will be to broaden and deepen the process and maintain its momentum. Realistically, changes of this magnitude will take years—and perhaps decades—to complete. The resistance will be formidable and sometimes violent—as, for instance, in the attempted assassination of Juan Pablo de Tavira, the crusading prison director who was Zedillo's choice to head the federal police.⁵⁴

The issue of violence is crucial. The past few years have witnessed an epidemic of assassinations, many of which have been attributed to narcotraffickers, power struggles within the PRI, and PRI violence against the opposition (especially the PRD). These killings have eroded public confidence in the government's integrity and ability to maintain order. One of Zedillo's greatest challenges will be to restore that confidence. An obvious place to begin is with convincing resolutions of the Posadas, Colosio and Ruiz Massieu assassination cases. These cases are of enormous symbolic importance. But while the government has reopened them, there are serious questions as to the quality of the investigations that are underway. The special prosecutor, José Pablo Chapa Bezanilla, has built his career in the capital's notoriously corrupt judicial police. In the past, he has been accused of manufacturing evidence for political reasons. His conduct of the investigations thus far has been marked by sensationalistic charges and a paucity of substantive new evidence.⁵⁵ Zedillo would be well advised to consider appointing someone else to this sensitive post—someone whose record and style can generate more public confidence. Otherwise, any conclusions reached are likely to be disbelieved, further undermining the legitimacy of both the government and the political system.

In addition, government violence must be brought under control. One of the greatest dangers in a country harboring incipient guerrilla organizations is that the armed forces and police may overreact and fuel these movements by engaging in human rights violations. This is a problem not only in Chiapas, where some abuses have already occurred,⁵⁶ but in rural areas throughout the country. The recent shooting of several dozen peasants in Guerrero is a case in point.⁵⁷ There is a need for official restraint; moreover, when violations do occur the perpetrators must be brought to justice. A failure to do so sends all the wrong signals and risks igniting a “dialectic of revolution,” with counterrevolutionary violence feeding revolutionary violence and vice versa, as happened in the 1970s and 1980s in Central America.⁵⁸ The way to defuse Chiapas and prevent

other such conflicts from developing is through political inclusion, socioeconomic reform, and a respect for human rights.

There is also a need to step up the struggle against narcotrafficking. In recent years, the flow of drugs through Mexico into the United States has increased.⁵⁹ Yet, U.S. policy has been slow to adjust. The United States did not use the bargaining leverage provided by the NAFTA negotiations to press the Mexican Government to remove corrupt officials or more aggressively pursue anti-drug operations. Nor has counternarcotics really been a priority since then.⁶⁰ As a result, opportunities have been missed to influence Mexican developments in ways that might have been beneficial to both countries.

As with so many other aspects of the Mexican crisis, the failure to face the problem early, while it was manageable, allowed it to grow to crisis proportions. Now it can no longer be ignored. Mexico must meet the challenge of the narcotraffickers squarely, not as a favor to the United States, but because the cartels have become a major threat to Mexican national security and the whole process of reform. An antidrug campaign on the order of what is needed might well lead to increased levels of violence in the short-to-medium run, but the alternative might be even more dangerous: the continued subversion of Mexican government and society, with the end result being the creation of a full-fledged narco-state.

Recently President Zedillo, under growing U.S. pressure, has moved to take a stronger stand. Narcotrafficking has been reaffirmed to be Mexico's primary national security problem. Mexican Army generals are being brought more extensively into the government's drug-control strategy; field commanders have begun to work with federal police to coordinate new regional plans to intercept drug shipments. Air Force F-5 jet fighters and T-33 trainers will be used to intercept planes loaded with cocaine. While one of the risks of this more aggressive policy is that it may subject the armed forces to greater corruption, this danger may be ameliorated by the fact that the military will not generally plan operations and will continue to turn over suspected criminals to the police.⁶¹

The Clinton administration is expected to support this change in strategy by providing the Mexican Attorney General's office with some 20 surplus UH-1H Huey helicopters to transport police in interdiction operations. The two countries are also discussing the possibility that the United States might lend or sell several dozen of the more sophisticated UH-60 Blackhawk transport helicopters for the same purposes.⁶²

While a more aggressive Mexican approach to the threat of narcotrafficking—including increased cooperation with the United States—is to be applauded, the risks and costs of such a course must be fully understood: in the short run, at least, an increase in violence might frighten away foreign investors, making economic recovery more difficult.

In combination with other factors, an escalation of counternarcotics operations, including the targeting of cartel leaders, could potentially lead to the destabilization of Mexico. Nor is there any guarantee that the cartels would be defeated. It will take much more than a courageous Mexican president and an influx of U.S. military technology to prevail. As long as there are economic incentives for growers and traffickers, the problem will persist. In this sense, the United States, through its failure to deal with its own voracious drug appetite, has subverted Mexico.

Ultimately, the only really effective strategy will be one that combines both supply-side and demand-side approaches. Stepped up enforcement efforts in Mexico, Colombia and elsewhere must be combined with educational, medical, employment and law enforcement programs in the United States. This will require significant increases in resources and the will to persist on an indefinite basis. In this respect, the imagery of the “war on drugs,” with its implication that there is a “final solution” and that the war will either be won or lost, is misleading and counterproductive. This is a law enforcement problem, rather than a war, and it will never entirely be eliminated. On the other hand, it makes all the difference in the world—both to Mexico and the United States—whether the threat is relatively low-level or one of true “national security” dimensions.

Still another instance of a problem that has been nurtured through neglect is illegal immigration. Mexico, of course, has had no inherent incentive to stem the flow to the United States and considerable reason to let it continue, since it serves as an important “safety valve” for the release of potentially dangerous social tensions. Nor has the United States really dealt with the problem. We did not use our NAFTA bargaining leverage to secure greater Mexican cooperation, and have often not even enforced our own laws vigorously or effectively. (Simply dumping arrested illegals back over the border where they can cross again and again is no answer.) At the same time, we have made illegal immigration attractive by providing some social services, citizenship for U.S.-born children of illegals, the hope of permanent amnesty, and other incentives.⁶³

Now, however, the political climate has changed. One anticipates that illegal immigration will be a prominent issue in the 1996 elections, with Republicans and Democrats striving to outdo each other in taking a hard line. For its part, the Clinton administration has just submitted legislation to Congress to strengthen U.S. border protection efforts. If passed, the measures would add 1,500 new agents to the Border Patrol, boost sanctions on employers who hire illegal aliens, streamline the deportation process, authorize border-crossing fees (with the approval of local communities), and establish a pilot worker-identification system. In addition, the Zedillo administration has agreed to step up its cooperation by increasing the number of Mexican police and immigration officers on the border, expanding a special border anticrime force, and shutting down a network of water tunnels in the Nogales area that is frequently used for smuggling immigrants.⁶⁴

No doubt these measures will have some impact. More aggressive enforcement—including increases in the number of agents, the redeployment of others, and the use of night-vision scopes, electronic sensors and other technology—has increased the number of recent arrests and forced a shift in the points of entry. Some prospective illegals have clearly been deterred. And there are other things that could be done as well.⁶⁵ Arrested aliens, for instance, could be returned deep into Mexico, far from the border, which would make repeated crossings much more difficult. The downside is that more aggressive enforcement is also likely to result in an increase in human rights violations by U.S. and Mexican authorities. (There has already been a troubling rise in such abuses.)⁶⁶ Clearly, greater effort must be made to minimize these practices.

The question, of course, is whether such measures will be enough to keep up with the rising tide of illegals,⁶⁷ much less significantly reduce their numbers. As long as Mexicans are being driven to the wall by economic crisis and the policies of their own government, the primary causes of migration will not have been addressed. This suggests, again, the need to reevaluate the neoliberal economic strategy and institute measures capable of providing ordinary Mexicans with more relief from the social crisis they are experiencing.

Along these same lines, the United States should reconsider Mexico's request (recently rejected) that water be diverted from the Río Grande to ameliorate the effects of the drought that has been afflicting the northern half of the country. One understands the reluctance of U.S. authorities to do this—the drought affects large areas of southern Texas, too, and local farmers are adamantly opposed to a diversion—but the denial has serious implications for both countries: the loss of crops is eliminating many rural jobs in Mexico, which will foster more illegal immigration. More food will have to be imported, which will make it difficult to repay foreign loans. (Already, indeed, there are questions about Mexico's ability to meet its environmental commitments under NAFTA.) There are indications, also, that the denial is causing considerable bitterness among Mexican farmers in the area.⁶⁸

What are the implications of all this for the U.S. Army? Certainly, the most obvious involve illegal immigration and narcotrafficking. Recently, the Justice Department has been developing a contingency plan to prevent a large-scale influx of illegal aliens. There is talk of adding Mexico to the year-and-a-half-old Operation Distant Shores, which was originally developed in response to the threat of mass immigration from Cuba and Haiti, and of using abandoned U.S. military bases for the temporary shelter of illegal immigrants awaiting processing and extradition.⁶⁹

The danger is that, in a time of growing public and congressional pressure to “do something” about illegal immigration and drug trafficking, the Army may get pulled into operations which could prove damaging to our relations with Mexico. Again, this is a sensitive issue. The very suggestion of U.S. troop involvement in U.S.-Mexican affairs—

even if limited to U.S. territory—would be regarded by many Mexicans as an affront to their sovereignty. Thus, the Army’s traditional caution in these matters. The Pentagon has not even included Mexican contingencies in its war gaming since the early 1940s, and it no longer practices tactical border-sealing maneuvers.⁷⁰

This is wise. We should be wary of proposals to militarize the border or otherwise prominently involve the Army in operations that would be perceived as being aimed at the Mexican people or in violation of Mexican sovereignty. This is not to say that the military should play no role, only that it should be low-profile.

In a more general sense, enhanced U.S.-Mexican security cooperation might be usefully pursued within the trilateral context provided by NAFTA. As one source recently suggested, the United States, Mexico and Canada might institutionalize annual “North American Summits,” where each could present its assessment of shared national security concerns. Such a forum might promote greater understanding and cooperation, and lead to common positions on some issues. The three sides could also engage in combined “confidence-building” activities, such as personnel exchanges, unit visits, and noncontroversial (e.g., search-and-rescue) exercises. Greater attention, too, needs to be paid to the supportive role to be played by these armed forces in dealing with transnational threats like illegal immigration and narcotrafficking.⁷¹

In the end, the United States can bolster Mexican stability in certain respects and avoid other actions that might be destabilizing, but there are no guarantees. While the adoption of a foreign-investment, export-oriented economic strategy has opened up new potentials for economic growth, it has also made Mexico much more dependent on and vulnerable to external forces beyond its control. Notwithstanding some favorable preliminary signs, it will likely take years to fully restore investor confidence. In the meantime, Mexico’s economic recovery—and hence political and social stability—will remain problematic. Beyond this, how does one attract the right kind of capital—namely, that which will be invested in plants and equipment that produce real economic growth and real jobs and will not flee the country in times of political unrest or whenever the U.S. Federal Reserve raises interest rates? This is one of the most important questions facing Mexico today. It is urgently in need of an answer.

Then, there are constraints imposed by ideology, the search for profits, and the political and psychological difficulties of reevaluating a policy in which so much capital and so many reputations have been invested. Some of the recommendations presented in this study will be rejected because they do not conform to the orthodox economic views (the so-called “Washington consensus”) that dominate the current policy discourse. Even if President Zedillo and his advisors were willing to reconsider their economic strategy—and we are suggesting here only selective changes—could they get the support of the United States and other foreign lenders? Without that support and the economic aid that comes with it, any alternative strategy would surely flounder.

Finally, there remain troubling questions about the depth and durability of both U.S. and Mexican commitments to the campaign against drugs. Both countries have waxed hot and cold in the past. During the NAFTA debate, the United States soft-pedaled the narcotics problem, exaggerating Mexican cooperation lest a more critical stance jeopardize the desired accord.⁷² Yet Mexican promises have too often gone unfulfilled, or produced only transitory results, to justify any assumptions that things have fundamentally changed. That means that the United States must have the will to continue pressing the Mexican Government if the latter's efforts flag. Will the United States stay the course? Will Mexico?

In sum, the crisis will likely continue. Where it will ultimately lead cannot be predicted with confidence, but one thing is certain: the euphoria generated by NAFTA was based on wildly optimistic assumptions about Mexico's ability to manage its internal political and economic modernization in an increasingly interdependent world. The lesson from all this should be abundantly clear: if you do not come to terms with reality, then reality will come to terms with you, probably in very unpleasant ways.

ENDNOTES

1. For a detailed analysis of the crisis as it developed during the Salinas years and the first months of the Zedillo presidency, see the preceding companion report to this study: Donald E. Schulz, *Mexico in Crisis*, Carlisle, PA: Strategic Studies Institute, U.S. Army War College, May 31, 1995.

2. In the 19th century, Mexico lost about half of its national territory to the United States. U.S. troops occupied Veracruz in 1914. During the Mexican revolution, the U.S. repeatedly interfered in the country's internal affairs to protect American investments and promote approved political leaders. Subsequently, the fear of U.S. economic domination persisted long after the fear of military intervention subsided.

3. On the recent changes in Mexican perceptions of national security, see Sergio Aguayo Quezada and Bruce Michael Bagley, eds., *En Busca de la Seguridad Perdida: Aproximaciones a la Seguridad Nacional Mexicana*, Mexico, D.F.: Siglo Veintiuno Editores, 1990; and Mark Williams, "Mexico's New National Security Paradigm and the Politics of Elite Self-Interest," paper presented at the 1992 International Studies Association Conference, Atlanta, GA, April 1-4, 1992.

4. For skeptical views of the future of Mexican democracy, see Al Pérez, "Free Trade with Mexico and U.S. National Security," in *Mexico Faces the 21st Century*, Donald E. Schulz and Edward J. Williams, eds., Westport, CT: Greenwood Publishing Group, forthcoming 1995; and Adolfo Aguilar Zinser, "Authoritarianism and North American Free Trade: The Debate in Mexico," in *The Political Economy of North*

American Free Trade, Ricardo Grinspan and Maxwell A. Cameron, eds. New York, NY: St. Martin's Press, 1993, pp. 205-216.

5. Wayne A. Cornelius, "Mexico's Delayed Democratization," *Foreign Policy*, No. 95, Summer 1994, pp. 68-69.

6. One should qualify this by noting that these cases have not been resolved, and may never be—at least not satisfactorily. But there has been widespread speculation as to cartel involvement in all three. (The link is indisputable in the Posadas case; the only question is whether the archbishop was the intended target or merely an innocent bystander.) In addition, there has been speculation and/or charges that PRI "dinosaurs" have been involved in the Colosio and Ruiz Massieu cases, perhaps in league with the narcos. See Schulz, *Mexico in Crisis*; and Silvana Paternostro, "Mexico as a Narco-Democracy," *World Policy Journal*, Vol. 12, No. 1, Spring 1995, pp. 41-42.

7. Here, see especially Denise Dresser, "Treading Lightly and Without a Stick: International Actors and the Promotion of Democracy in Mexico," paper presented at the 18th International Congress of the Latin American Studies Association, March 10-12, 1994.

8. Foreign Broadcast Information Service (FBIS), *Daily Report: Latin America*, August 5, 1994. The results may be seen in the May gubernatorial election in the Yucatán, where the entrenched PRI machine went about its business as usual, buying votes, coercing voters, and so on.

9. His accuser was Ruiz Massieu's brother, Mario, whose own credibility on such matters leaves something to be desired. Mario Ruiz was the former deputy attorney general who led the initial investigation of the assassination. In March 1995, he was arrested and charged with having falsified evidence to protect Salinas' brother, who was said to have masterminded the killing. There was evidence also that he had received millions of dollars in payoffs, probably from drug traffickers.

10. For the recent cabinet changes, see Tim Golden, "Mexico Chief Again Shuffles His Cabinet," *The New York Times*, January 24, 1995; and "Expert Politico Called to Revive Mexican Reforms," *Miami Herald*, June 30, 1995. On the questionable quality of many of Zedillo's advisors, see Luis Javier Garrido's commentary in FBIS, *Daily Report: Latin America*, January 18, 1995, pp. 21-22.

11. See Schulz, *Mexico in Crisis*; and FBIS, *Daily Report: Latin America*, May 31, 1995.

12. For a detailed analysis of what went wrong, see Moisés Naím, "Mexico's Larger Story," *Foreign Policy*, No. 99, Summer 1995, pp. 112-130.

13. For details, see Donald E. Schulz and Edward J. Williams, "Crisis or Transformation? The Struggle for the Soul of Mexico," in Schulz and Williams, eds., *Mexico Faces the 21st Century*. Initially, it was assumed that the chief culprits were foreign (mainly U.S.) investors. A recent International Monetary Fund report, however, disputes this, maintaining that it was Mexican investors who began the run on their own currency. Clay Chandler, "IMF Ties Peso Crisis to Mexican Investors," *The Washington Post*, August 21, 1995.

14. FBIS, *Daily Report: Latin America*, February 13, 1995.

15. As of mid-year, Mexican reserves stood at \$14.3 billion, up from \$2 billion in January, and there were only \$8.9 billion of *tesobonos* still outstanding. Moreover, direct foreign investment was growing. The peso had stabilized at 6 to 6.3 to the dollar; inflation, though still high, was declining; and the stock market had gained more than a thousand points since February. Anthony DePalma, "After the Fall: 2 Faces of Mexico's Economy," *The New York Times*, July 16, 1995; Martha M. Hamilton, "Investors Look South of Border," *The Washington Post*, July 3, 1995.

16. FBIS, *Daily Report: Latin America*, June 23, 1995.

17. I am indebted to Rod Camp for impressing this point on me.

18. David E. Sanger, "Do Fickle Markets Now Make Policy?", *The New York Times*, March 19, 1995; DePalma, "After the Fall," FBIS, *Daily Report: Latin America*, June 12, 1995.

19. On July 19, the U.S. House of Representatives approved a bill to stop the use of the Exchange Stabilization Fund to support foreign currencies, including the peso. It remains to be seen whether the measure passes in the Senate. If it does, President Clinton is expected to veto it.

20. See, especially, Naím, "Mexico's Larger Story," pp. 121-127.

21. According to Finance Minister Guillermo Ortiz, who held out the possibility that the economy might grow by 5 percent in 1997. FBIS, *Daily Report: Latin America*, June 5, 1995.

22. More recently, the economic crisis has taken its toll on billionaires as well as ordinary citizens. There are now reported to be only 10 billionaires in Mexico. See DePalma, "After the Fall"; Sam Quinones, "Broken Promises, Broken Dreams," *The New York Times*, January 12, 1995; and Joel Millman, "Mexico's Billionaire Boom," *The Washington Post*, November 27, 1994.

23. *Ejidos* are groups of 20 or more peasants who had received and worked lands redistributed during the agrarian reform. Until 1992, their right to sell, lease or rent these properties had been severely restricted.

24. David Barkin, "The Specter of Rural Development," *NACLA Report on the Americas*, Vol. 28, No. 1, July/August 1994, p. 32.

25. Much of this land is located in arid areas and is subject to erosion. Potential buyers may therefore shy away from these properties. Furthermore, many firms may prefer to lease *ejido* lands rather than purchase them outright. Boundaries, moreover, have been legally demarcated in only a minority of cases, and the government machinery that adjudicates such issues grinds exceedingly slow. Finally, many *ejidatarios* do not want to sell their lands or move. In recent years, many peasants have diversified their labor so they are no longer totally dependent on farming for a living. Those who can survive in this manner may choose to stay. See Wayne A. Cornelius, "The Politics and Economics of Reforming the *Ejido* Sector in Mexico: An Overview and Research Agenda," *LASA Forum*, Vol. 28, No. 3, Fall 1992, p. 7.

26. Michael E. Conroy and Amy K. Glasmeier, "Unprecedented Disparities, Unparalleled Adjustment Needs: Winners and Losers on the NAFTA 'Fast Track,'" *Journal of Interamerican Studies and World Affairs*, Vol. 34, No. 4, Winter 1992-1993, p. 19.

27. Philip L. Martin, *Trade and Migration: NAFTA and Agriculture*, Washington, DC: Institute for International Economics, 1993, pp. 4-5.

28. The Clinton administration has raised the specter of some half a million more illegal aliens annually pouring across the border. Most immigration experts, however, believe that the numbers will be less. Furthermore, most illegals return to Mexico after a short stay in the United States. Perhaps as few as 40,000 a year might actually become settlers. See Roberto Suro, "Estimates of Migration from Peso Crisis Are Overstated," *The Washington Post*, January 26, 1995.

29. See, especially, Stephen J. Wager, "The Mexican Military Approaches the 21st Century: Coping with a New World Order," in Schulz and Williams, eds., *Mexico Faces the 21st Century*; and Mónica Serrano, "The Armed Branch of the State: Civil-Military Relations in Mexico," *Journal of Latin American Studies*, Vol. 27, Part 2, May 1995, pp. 423-448.

30. To date, the PRI has lost three out of the four gubernatorial elections that have been held. In Jalisco, Guanajuato, and Baja California, it was swamped by the PAN. In the Yucatán, it won a close victory, but the opposition is protesting the results.

31. Canadian Security Intelligence Service (CSIS), “Mexico: Prognosis for Stability,” No. 52, December 1994, p. 7.

32. *Ibid.*

33. Lisa Burgess, “Bracing for an Exodus,” *Journal of Commerce*, April 7, 1995; S.C. Gwynne, “The Unwelcome Mat,” *Time*, November 28, 1994.

34. The rationale for not warning U.S. investors was that doing so might start a panic, which was the last thing we wanted to do. Beyond privately warning the Mexicans, it was argued, there wasn’t much that we could do. Mexico, after all, is a sovereign country and makes its own policies.

35. Jane Bussey, “For Mexico’s New President, 5 Weeks of Bumbling,” *Miami Herald*, January 10, 1995.

36. See, e.g., Anthony DePalma, “With Peso Freed, Mexican Currency Drops 20% More,” *The New York Times*, December 23, 1994; and David E. Sanger with Anthony DePalma, “On Both Sides of the Border, Peso Ills Were Long Ignored,” *Ibid.*, January 24, 1995.

37. Quoted in Tod Robberson, “Mexicans Wary of Bailout’s Fallout,” *The Washington Post*, February 2, 1995.

38. Here see especially Pérez, “Free Trade with Mexico and U.S. National Security.”

39. Obviously, this is not just a “Mexican” problem. The Mexican component is but one (admittedly large) part of a massive immigration issue that the United States has not yet come to terms with. For a detailed treatment of these and related matters, see Daniel James, *Illegal Immigration—An Unfolding Crisis*, Lanham, MD: University of Press of America, 1991.

40. See, e.g., Paternostro, “Mexico as a Narco-Democracy.” Also, Pierre Thomas and Daniel Williams, “Mexico’s Spreading Drug Stain,” *The Washington Post*, March 12, 1995; Douglas Farah, “Drug Lords’ Influence Pervading Mexico,” *Ibid.*, April 4, 1995; Tim Golden, “Tons of Cocaine Reaching Mexico in Old Jets,” *The New York Times*, January 10, 1995; and Golden, “A Cocaine Trail in Mexico Points to Official Corruption,” *Ibid.*, April 19, 1995.

41. There is a history of this, as those who are familiar with Pancho Villa’s cross-border raids will recall.

42. On U.S. security interests, see especially Sergio Aguayo Quezada, "The Uses, Misuses, and Challenges of Mexican National Security: 1946-1990," in *Mexico: In Search of Security*, Bruce Michael Bagley and Sergio Aguayo Quezada, eds., New Brunswick, NJ: Transaction Publishers, 1993, pp. 98-104.

43. I do not suggest that these policies alone produced the Zapatista uprising. Clearly, there were many factors involved. For a more thorough discussion, including policy recommendations, see Stephen J. Wager and Donald E. Schulz, "The Awakening: The Zapatista Revolt and Its Implications for Civil-Military Relations and the Future of Mexico," *Journal of Interamerican Studies and World Affairs*, Vol. 37, No. 1, Spring 1995, pp. 1-42. See also Roger Burbach and Peter Rosset, *Chiapas and the Crisis of Mexican Agriculture*, Policy Brief No. 1, Oakland, CA: Food First/Institute for Food and Development Policy, December 1994; and Neil Harvey, "Rebellion in Chiapas: Rural Reforms, Campesino Radicalism, and the Limits to *Salinismo*," *Transformation of Rural Mexico*, No. 5, San Diego, CA: Ejido Reform Research Project, Center for U.S.-Mexican Studies, University of California at San Diego, 1994, pp. 1-43.

44. See, especially, Paul Krugman, "Dutch Tulips and Emerging Markets," *Foreign Affairs*, Vol. 74, No. 4, July/August 1995, pp. 28-44.

45. George Collier with Elizabeth Lowery Quaratiello, *Basta! Land and the Zapatista Rebellion in Chiapas*, Oakland, CA: Food First/Institute for Food and Development Policy, 1994, pp. 153-154.

46. See, e.g., David Barkin, *Distorted Development: Mexico in the World Economy*, Boulder, CO: Westview Press, 1990, pp. 11-40 and 124-126; also, Johathan Fox's excellent study of the short-lived Sistema Alimentario Mexicano and the lessons that can be learned from it: *The Politics of Food in Mexico: State Power and Social Mobilization*, Ithaca, NY: Cornell University Press, 1993, particularly Chapter 7.

47. Even before NAFTA, Mexico was importing between a fifth and a third of the staple foods needed for domestic consumption, including about 20 percent of its primary staple food, corn. Burbach and Rosset, *Chiapas*, pp. 1-4, 12.

48. In the words of Agrarian Reform Secretary Arturo Warman, in FBIS, *Daily Report: Latin America*, July 5, 1995.

49. Collier, *Basta!*, pp. 150-151.

50. For a detailed analysis of the agrarian problem, along with specific policy recommendations, see Billie R. DeWalt and Martha N. Rees, with the assistance of Arthur D. Murphy, "The End of Agrarian Reform in Mexico: Past Lessons, Future

Prospects," *Transformation of Rural Mexico*, No. 3, San Diego, CA: Ejido Reform Research Project, Center for U.S.-Mexican Studies, University of California at San Diego, 1994.

51. Naím, "Mexico's Larger Story," p. 121.
52. DePalma, "After the Fall"; Tod Robberson, "Mexico Faulted on Financial Data," *The Washington Post*, August 22, 1995.
53. Cornelius, "Mexico's Delayed Democratization," p. 70.
54. Katherine Ellison, "Mexican Police Often on Wrong Side of Law," *Miami Herald*, April 9, 1995.
55. So shaky was the Mexican government's case in its recent effort to extradite Mario Ruiz Massieu that a U.S. judge denied its request. Clifford Levy, "U.S. Judge Denies Extradition of a Top Mexican Official," *The New York Times*, June 23, 1995. On the record of Pablo Chapa, see John Womack, Jr., "The Strange Case of Pablo Chapa," *New York Review of Books*, Vol. 42, No. 12, July 13, 1995, p. 11.
56. See Physicians for Human Rights and Human Rights Watch/Americas, *MEXICO: Waiting for Justice in Chiapas*, Boston, MA: Physicians for Human Rights, December 1994.
57. Tod Robberson, "10 Mexican Policemen Arrested in Shooting Deaths of 18 Guerrero Peasants," *The Washington Post*, July 3, 1995.
58. See Donald E. Schulz, "Ten Theories in Search of Central American Reality," in *Revolution and Counterrevolution in Central America and the Caribbean*, Donald E. Schulz and Douglas H. Graham, eds., Boulder, CO: Westview Press, 1984, pp. 27-35.
59. In large part, this has been an unintended consequence of U.S. policies: First, the effectiveness of the Bush administration's counterdrug operations in the Caribbean forced the traffickers to move their supply routes westward, through Mexico. Second, NAFTA, by greatly expanding cross-border commerce, increased the problems of detection and interdiction and hence encouraged the cartels to step up the flow. Third, the recent shift away from international enforcement programs were undoubtedly viewed by some Latin American leaders, as well as by the traffickers themselves, as evidence that the United States was no longer committed to counternarcotics. Such a perception could only encourage the cartels, while eliminating much of the incentive for Latin American political leaders to cooperate in these matters.
60. Paternostro, "Mexico as a Narco-democracy"; R. Jeffrey Smith, "U.S. Defense

in Drug War Isn't Working," *The Washington Post*, July 10, 1995.

61. Tim Golden, "Mexico Plans Bigger Role for Military Against Drugs," *The New York Times*, May 23, 1995.

62. *Ibid.*

63. See James, *Illegal Immigration*, pp. 38-42, 103, 121, and 126.

64. Tim Golden, "Mexico Said to Promise Some Steps in Exchange for U.S. Loans," *The New York Times*, February 23, 1995; Tom Kenworthy, "Clinton to Press Ouster of Illegal Immigrants Charged with Crimes," *The Washington Post*, May 7, 1995.

65. See, e.g., James, *Illegal Immigration*, pp. 125-131.

66. See Human Rights Watch/Americas, *Crossing the Line: Human Rights Abuses Along the U.S. Border with Mexico Persist Amid Climate of Impunity*, New York: Human Rights Watch, April 1995.

67. Burgess, "Bracing for an Exodus"; Tim Golden, "At Border, Mexican Migrants Wait and Worry," *The New York Times*, April 13, 1995.

68. Tod Robberson, "Mexico in Mid-Crisis," *The Washington Post*, May 29, 1995; and Robberson, "Mexicans Say Cleanup of Border Imperiled," *Ibid.*, May 16, 1995. It should be pointed out that environmental issues also have national security implications. See, e.g., Diana M. Liverman, "Environment and Security in Mexico" and Richard A. Nuccio and Angelina M. Ornelas, with Iván Restrepo, "Mexico's Environment: Securing the Future," in Bagley and Aguayo Quezada, eds., *Mexico: In Search of Security*, pp. 211-286.

69. Burgess, "Bracing for an Exodus."

70. *Ibid.*

71. Mike Dziedzic, "NAFTA and North American Security," *Strategic Forum*, Institute for National Security Studies, No. 18, January 1995, p. 4.

72. See, e.g., Tim Golden, "To Help Keep Mexico Stable, U.S. Soft-Pedaled Drug War," *The New York Times*, July 31, 1995.

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